MANAGEMENT'S REPORT

The preparation of the accompanying consolidated financial statements is the responsibility of Management. The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Financial information contained throughout all other financial and operating data is consistent with these consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates, which are based on Management's informed judgements.

Management has established systems of internal controls, which are designed to provide reasonable assurance those assets, are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

Under the supervision of our Chief Executive Officer and our Chief Financial Officer, Management has conducted an evaluation of the effectiveness of our internal control over financial reporting. Management has concluded that as of December 31, 2013, our internal controls over financial reporting were effective. Because of the inherent limitations, internal controls over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

The Board of Directors is responsible for ensuring Management fulfils its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, all of whose members are non-management directors. The Audit Committee has reviewed the consolidated financial statements with Management and the auditors and has reported to the Board of Directors which have approved the consolidated financial statements.

KPMG LLP are independent auditors appointed by NuVista's shareholders. The auditors have considered, for the purposes of determining the nature, timing and extent of their audit procedures, the Company's internal controls and have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express an opinion on the fairness of the financial statements.

Jonathan A. Wright	Robert F. Froese
President and Chief Executive Officer	Vice President, Finance and Chief Financial Officer

March 6, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of NuVista Energy Ltd.

We have audited the accompanying consolidated financial statements of NuVista Energy Ltd., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, the consolidated statements of earnings (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NuVista Energy Ltd. as at December 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
March 6, 2014
Calgary, Canada

NUVISTA ENERGY LTD.

Consolidated Statements of Financial Position

($Cdn thousands) **As at December 31,**	**2013**	2012
Assets		
Current assets		
Cash and cash equivalents	**$ 2,488**	$ -
Accounts receivable and prepaid expenses	**29,428**	30,317
Assets held for sale (notes 5, 6)	**-**	2,162
	31,916	32,479
Note receivable (note 6)	**5,000**	-
Exploration and evaluation assets (note 5)	**85,754**	113,164
Property, plant and equipment (note 6)	**779,642**	729,179
Goodwill (note 7)	**-**	3,352
Deferred tax assets (note 11)	**3,399**	-
Total assets	**$905,711**	$878,174
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 79,411**	$ 40,813
Commodity derivative liabilities (note 16)	**2,516**	1,072
	81,927	41,885
Long-term debt (note 8)	**-**	19,892
Other liabilities	**5,409**	1,868
Commodity derivative liabilities (note 16)	**4,305**	-
Asset retirement obligations (note 9)	**106,275**	147,759
Deferred tax liabilities (note 11)	**-**	10,709
	197,916	222,113
Shareholders' equity		
Share capital (note 12)	**991,489**	882,831
Contributed surplus	**39,607**	35,387
Deficit	**(323,301)**	(262,157)
	707,795	656,061
Total liabilities and shareholders' equity	**$905,711**	$878,174

Subsequent event (note 16)
Commitments (note 19)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

W. Peter Comber, Director

Pentti O. Karkkainen, Director

NUVISTA ENERGY LTD.

Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)

($Cdn thousands, except per share amounts)		
Year ended December 31,	**2013**	2012
Revenues		
Oil and natural gas	**$213,469**	$242,012
Royalties	**(20,949)**	(28,119)
	192,520	213,893
Realized loss on commodity derivatives (note 16)	**(7,013)**	(3,957)
Unrealized gain (loss) on commodity derivatives (note 16)	**(5,749)**	14,548
	179,758	224,484
Expenses		
Operating	**74,027**	92,326
Transportation	**6,920**	7,244
General and administrative	**20,462**	21,339
Share-based compensation (note 14)	**9,381**	5,352
Goodwill impairments (note 7)	**-**	5,439
Depletion, depreciation, amortization and impairment (reversals) (note 6)	**76,559**	332,433
Exploration and evaluation (note 5)	**5,599**	12,005
Loss (gain) on property dispositions (notes 5,6,9)	**55,478**	(12,938)
Financing charges (note 17)	**7,792**	16,017
	256,218	479,217
Loss before taxes	**(76,460)**	(254,733)
Deferred income tax benefit (note 11)	**(15,316)**	(59,533)
Net loss and comprehensive loss	**$ (61,144)**	$(195,200)
Net loss per share (note 13)		
Basic	**$ (0.51)**	$ (1.93)
Diluted	**$ (0.51)**	$ (1.93)

See accompanying notes to consolidated financial statements.

NUVISTA ENERGY LTD.

Consolidated Statements of Changes in Shareholders' Equity

($Cdn thousands) **Year ended December 31,**	**2013**	2012
Share capital (note 12)		
Balance, beginning of year	**$ 882,831**	$ 790,340
Issued for cash on offering of common shares	**78,100**	84,770
Issued for cash on offering of flow-through common shares	**33,545**	8,330
Issued for cash on exercise of stock options	**688**	4
Exercise of stock options	**236**	1
Conversion of restricted share awards	**364**	722
Share issue costs, net of deferred tax benefit of $1.4 million (2012 – $0.4 million)	**(4,275)**	(1,336)
Balance, end of year	**$ 991,489**	$ 882,831
Contributed surplus		
Balance, beginning of year	**$ 35,387**	$ 32,165
Share-based compensation	**4,820**	3,945
Exercise of stock options	**(236)**	(1)
Conversion of restricted share awards	**(364)**	(722)
Balance, end of year	**$ 39,607**	$ 35,387
Deficit		
Balance, beginning of year	**$(262,157)**	$ (66,957)
Net loss	**(61,144)**	(195,200)
Balance, end of year	**$(323,301)**	$(262,157)
Total shareholders' equity	**$ 707,795**	$ 656,061

See accompanying notes to consolidated financial statements.

NUVISTA ENERGY LTD.

Consolidated Statements of Cash Flows

($Cdn thousands) **Year ended December 31,**	**2013**	2012
Cash provided by (used in)		
Operating activities		
Net loss	**$ (61,144)**	$(195,200)
Items not requiring cash from operations:		
Depletion, depreciation, amortization and impairment	**76,559**	332,433
Goodwill impairments	**-**	5,439
Exploration and evaluation	**5,599**	12,005
Loss (gain) on property dispositions	**55,478**	(12,938)
Share-based compensation	**4,605**	3,954
Unrealized (gain) loss on commodity derivatives	**5,749**	(14,548)
Deferred income tax benefit	**(15,316)**	(59,533)
Accretion	**3,776**	4,060
Asset retirement expenditures	**(8,809)**	(13,807)
Change in non-cash working capital	**16,765**	(3,344)
	83,262	58,521
Financing activities		
Issue of share capital, net of share issue costs	**112,769**	92,997
Repayment of long-term debt	**(19,892)**	(269,539)
	92,877	(176,542)
Investing activities		
Property, plant and equipment expenditures	**(212,722)**	(96,960)
Exploration and evaluation expenditures	**(11,667)**	(18,662)
Property acquisitions	**(2,183)**	(1,016)
Proceeds on property dispositions	**30,270**	237,821
Change in non-cash working capital	**22,651**	(3,162)
	(173,651)	118,021
Change in cash and cash equivalents	**2,488**	-
Cash and cash equivalents, beginning of year	**-**	-
Cash and cash equivalents, end of year	**$ 2,488**	$ -
Cash interest paid	**$ 4,060**	$ 11,370

See accompanying notes to consolidated financial statements.

Year ended December 31, 2013 with comparative figures for 2012. All tabular amounts are in thousands of Canadian dollars, except share and per share amounts, unless otherwise stated.

1. Corporate information

NuVista Energy Ltd. ("NuVista" or the "Company") is a publicly traded company incorporated under the laws of Alberta. The Company is an oil and natural gas company actively engaged in the exploration for and the development and production of oil and natural gas reserves.

The address of the Company's head office is 3500, 700 – 2nd Street S.W., Calgary, Alberta, Canada, T2P 2W2.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 6, 2014.

(b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for compensation liabilities and derivative financial instruments that have been measured at fair value with the changes in fair value recorded in net earnings.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiaries.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The following are critical judgments that management has made in the process of applying accounting policies that have the most significant effect on the consolidated financial statements:

(i) Cash generating units

Cash generating units ("CGUs") are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or group of assets. The classification of assets into cash generating units requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Company's operations.

(ii) Impairment indicators

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimate of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

(iii) Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found.

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in the consolidated financial statements:

(iv) Reserve estimates

Oil and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals. Reserve estimates are based on engineering data, estimated future prices and costs, expected future rates of production and the timing of future capital expenditures, all of which are subject to many uncertainties and interpretations. The Company expects that, over time, its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels and may be affected by changes in commodity prices.

(v) Asset retirement obligations

Asset retirement obligations are recognized for the future decommissioning and restoration of property, plant and equipment. These obligations are based on estimated costs, which take into account the anticipated method and extent of restoration and technological advances. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technology, operating experience and prices. The expected timing of future decommissioning and restoration may change due to certain factors, including reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented.

(vi) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. The deferred tax asset or liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by the Company and its subsidiaries.

(a) Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries.

Intercompany balances and transactions between the Company and its subsidiaries are eliminated on consolidation.

(b) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(c) Joint interest

A portion of exploration, development and production activities are conducted jointly with others under contractual arrangement and, accordingly, the Company only reflects its proportionate interest in such activities.

(d) Exploration and evaluation assets

Exploration and evaluation (“E&E”) expenditures are initially capitalized within “Exploration and evaluation assets”. E&E costs may include the costs of acquiring licenses, technical services and studies, seismic acquisition, exploration drilling and testing costs and directly attributable general and administrative costs. Costs incurred prior to having obtained the legal right to explore an area are charged to net earnings as exploration and evaluation expenditures in the period in which they are incurred.

E&E assets are not depreciated. These costs are accumulated by well and are carried forward until the existence of commercial reserves has been determined. The Company defines commercial reserves as the existence of proved and/ or probable reserves which are determined to be technically feasible and commercially viable to extract.

E&E assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability; and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is defined as the higher of fair value less costs to sell and value in use. E&E assets are tested for impairment at the operating segment level.

If proved and/or probable reserves have been discovered, E&E assets are first tested for impairment prior to the reclassification to property, plant and equipment. The carrying value, after any impairment loss, of the relevant E&E assets and associated undeveloped land is then reclassified as development and production assets within property, plant and equipment.

Any impairment loss on E&E assets, unsuccessful E&E costs and the cost of undeveloped land that has expired are charged to net earnings as exploration and evaluation expense.

(e) Property, plant and equipment

Development and production assets

Items of property, plant and equipment which include oil and gas development and production assets and corporate assets are measured at cost less accumulated depletion, depreciation, amortization and impairment. Development and production assets are accumulated on an area-by-area basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from E&E assets as outlined above.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in net earnings as incurred. Such capitalized oil and natural gas asset generally represents costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on an area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in net earnings as incurred.

Impairment

An impairment test is performed whenever events and circumstances arising during the development and production phase indicate that the carrying value of a development and production asset may exceed its recoverable amount. The carrying value is compared against the expected recoverable amount of the asset, defined as the greater of fair value less costs to sell and its value in use. Fair value less costs to sell is determined as the amount that would be obtained for the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined by using discounted future net cash flows of proved and probable reserves using forecast prices and costs including expansion prospects and its eventual disposal, using assumptions that an independent market participant may take into account. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset. If any indications of impairment exist, the Company performs an impairment test related to the assets. Individual assets or areas are grouped for impairment assessment purposes into CGU's, which are the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets.

Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is recorded within depletion, depreciation, amortization and impairment expense in net earnings. Impairments are reversed when events or circumstances give rise to changes in the estimate of the recoverable amount since the period the impairment was recorded. An impairment loss is reversed only to the extent that the CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, if no impairment loss had been recognized.

(f) Depletion, depreciation, amortization

The costs of development and production assets are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers annually.

Other property, plant and equipment are stated at cost less accumulated depletion, depreciation, amortization and any impairment in value. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) and depreciated over their useful lives. Costs associated with workovers are depreciated over two years and plant turnarounds and overhauls are depreciated over five years. Corporate assets are depreciated on a straight line basis over the useful life of the related assets. The assets' useful lives and residual values are assessed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

(g) Asset purchases and disposals

Transactions involving the purchase of an individual area, or a group of areas, that do not qualify as a business combination, are treated as asset purchases irrespective of whether the specific transactions involved the transfer of the areas directly or the transfer of an incorporated entity. Accordingly, no goodwill arises and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Proceeds on disposition are compared to the specific exploration and evaluation asset, development and production assets and asset retirement obligations disposed and associated goodwill, if any, and any surplus or shortfall is recorded as a gain or loss on disposal in net earnings.

(h) Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in net earnings in the period measured. Non-current assets held for sale are presented in current assets within the consolidated statement of financial position. Assets held for sale are not depleted or depreciated.

(i) Business combinations

Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case by case basis. Business combinations are accounted for using the acquisition method. The acquired identifiable assets and liabilities are measured at their fair value at the date of acquisition, with limited exceptions. Any excess of the purchase price over the recognized amount (generally the fair value) of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the recognized amount of the net assets acquired is recorded as a bargain purchase gain in net earnings. Associated transactions costs are expensed when incurred.

(j) Goodwill

Goodwill represents the excess of purchase price over the recognized amounts of net assets acquired in a business combination. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the CGUs that are expected to benefit from the synergies of the combination. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. The recoverable amounts are determined based on the greater of its fair value less costs to sell or value in use. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the development and production assets on a pro rata basis. Any impairment loss on goodwill is not reversed.

(k) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Asset retirement obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. An obligation is recognized for the estimated cost of abandonment and site restoration, by discounting expected future cash flows required to settle the obligation using a risk free rate, with a corresponding amount capitalized as asset retirement costs in property, plant and equipment. These asset retirement costs are subsequently depleted on a unit-of-production basis over the life of the proved and probable reserves. The obligation is adjusted each reporting period to reflect the passage of time and changes to the estimated future cash flows underlying the obligation. The increase in the obligation due to the passage of time is recognized as accretion expense and changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the obligations are charged against the liability.

(l) Revenue recognition

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party.

(m) Transportation

Transportation expenses include costs incurred to transport oil, natural gas, condensate and NGLs from the wellhead to the point of title transfer.

(n) Financial instruments

(i) Non-derivative financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “other financial liabilities” as defined by the accounting standard. Financial assets and financial liabilities at “fair value through profit or loss” are either classified as “held for trading” or “designated at fair value through profit or loss” and are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as “loans and receivables”, “held-to-maturity”, and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. Financial assets classified as “available-for-sale” are measured at fair value, with changes in fair value recognized in other comprehensive income.

Financial assets, excluding derivative instruments, are classified as “loans and receivables”. Financial liabilities, excluding derivative instruments, are classified as “other financial liabilities”. All derivative instruments are classified as “fair value through profit or loss”.

(ii) Derivative financial instruments

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in net earnings when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in net earnings.

The Company has accounted for its forward physical delivery sales contracts and power contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Realized gains or losses from natural gas and oil commodity physical sales contracts are recognized in oil and natural gas revenue as the contracts are settled. Realized gains or losses from power commodity contracts are recognized in operating costs as the related power contracts are settled.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized in net earnings.

(o) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(p) Share-based compensation

The Company has three types of incentive plans: stock options, restricted stock units ("RSU") and restricted share awards ("RSA") that may be granted to directors, officers and employees.

The Company's stock option plan provides the stock option holder with the right to purchase common shares. The Company uses the fair value method for valuing stock option grants using the Black-Scholes option pricing model. Under this method, the compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. A forfeiture rate is estimated on the grant date and is subsequently adjusted each period to reflect the actual number of options that are expected to vest.

The Company's RSU plan entitles participants to receive cash based on the Company's share price at the time of vesting. A liability for expected cash payments is accrued over the vesting period based on the market price of the Company's common shares. Compensation expense is recorded in net earnings as share-based compensation.

The RSA incentive plan allows a holder of the RSA to receive common shares upon vesting. The Company uses the fair value method for valuing stock option grants using the Black-Scholes option pricing model. This fair value is recognized as share-based compensation expense over the vesting period with a corresponding increase to contributed surplus. The amount of the compensation expense is reduced by an estimated forfeiture rate determined at the date of the grant. Upon vesting of the RSAs, the previously recognized value in contributed surplus will be recorded as an increase to share capital.

(q) Income taxes

Income tax expense represents the sum of the tax currently payable and the deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred income tax assets and liabilities are netted in certain circumstances.

Deferred income tax expense is recognized in the statement of earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

(r) Flow-through shares

The Company finances a portion of its exploration and development activities through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes related to exploratory development activities are renounced to investors in accordance with tax legislation. Flow-through shares issued are recorded in share capital at the fair value of common shares on the date of issue. The premium received on issuing flow-through shares is initially recorded as other liabilities termed 'deferred premium on flow-through shares'. As qualifying expenditures are incurred, the premium is reversed and a deferred income tax liability is recorded. The net amount is then recognized as deferred income tax expense.

(s) Earnings per share

Basic earnings per share is calculated by dividing the net earnings or losses attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised into common shares. The Company calculates the dilutive impact of common shares assuming the proceeds received from the pro forma exercise of in-the-money share options and RSAs are used to purchase common shares at average market prices.

(t) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term investments that are highly liquid in nature and have an original maturity date of three months or less.

4. New accounting policies

Changes in accounting policies

As of January 1, 2013, the Company was required to adopt the following standards as issued by the IASB. The adoption of these standards did not have any impact on our results of operations and financial position but additional disclosures have been provided.

- IFRS 10, "Consolidated Financial Statements" – the IASB issued IFRS 10 which replaces Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and established control as the single basis for determining the consolidation of an entity.

- IFRS 11, "Joint Arrangements" – the IASB issued IFRS 11 to replace IAS 31, "Interest in Joint Ventures". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted.

- IFRS 12, "Disclosure of Interests in Other Entities" – IFRS 12 outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

- IFRS 13, “Fair Value Measurement” – the IASB issued IFRS 13 which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

- Amendments to IAS 32, “Financial Instruments: Presentation” clarify the current requirement for offsetting financial instruments. The amendments to IFRS 7, “ Financial Instruments: Disclosures” develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements.

Future accounting changes

The IASB has undertaken a three-phase project, IFRS 9, “Financial Instruments” to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial asset and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of this standard remain in development and the full impact of the standard on the Company’s consolidated financial statements will not be known until the evaluation is complete.

In May 2013, the IASB issued amendments to IAS 36, “Impairment of Assets” which reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarifies the disclosure required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments will be applied by the Company on January 1, 2014 and will only impact the disclosures in the notes to the financial statements.

5. Exploration and evaluation assets

	2013	2012
Balance, beginning of year	**$113,164**	$132,398
Additions	**6,815**	18,662
Acquisitions	**4,852**	1,009
Dispositions	**(16,250)**	(6,466)
Capitalized share-based compensation	**324**	(140)
Transfers to property, plant and equipment	**(17,552)**	(19,202)
Expiries (exploration and evaluation expense)	**(5,599)**	(12,005)
Assets reclassified as held for sale	**-**	(1,092)
Balance, end of year	**$ 85,754**	$113,164

6. Property, plant and equipment

	2013	2012
Cost		
Balance, beginning of year	**$1,361,885**	$1,663,035
Additions	**212,722**	96,967
Acquisitions	**2,183**	-
Dispositions	**(273,983)**	(433,203)
Change in asset retirement obligations (note 9)	**475**	18,029
Transfers from exploration and evaluation assets	**17,552**	19,202
Assets reclassified as held for sale	**-**	(2,145)
Balance, end of year	**$1,320,834**	$1,361,885

	2013	2012
Accumulated depletion, depreciation, amortization and impairment		
Balance, beginning of year	**$632,706**	$480,869
Depletion and depreciation expense	**82,995**	119,375
Dispositions	**(168,073)**	(179,521)
Impairments (reversals)	**(6,436)**	213,058
Accumulated depletion and depreciation on assets held for sale	**-**	(1,075)
Balance, end of year	**$541,192**	$632,706

	2013	2012
Net book value		
Balance, beginning of year	**$729,179**	$1,182,166
Balance, end of year	**$779,642**	$ 729,179

In December 2013, the Company disposed of certain non-core oil and natural gas properties in the Saskatchewan and Provost areas for cash consideration of $25.2 million and a note receivable of $5.0 million. The note receivable is due in December 2016 with interest accrued at the effective rate of 8%. The loss on disposal of $55.5 million was recorded in net earnings during the period.

At December 31, 2013, the Company reviewed and adjusted its CGUs as a result of changes to the Company's oil and gas property mix and focus areas. The Wapiti Montney play has grown in significance in terms of assets and cashflow. As a result, the Wapiti Montney play has been separated into its own CGU. Certain natural gas CGUs remained unchanged and insignificant remaining oil CGUs were aggregated due to similarities in operational, management and monitoring product composition and cash inflows.

At December 31, 2013, there were indicators of impairment reversals and impairment in various CGUs. In the Company's Wapiti Montney CGU, there were significant reserve additions by the Company's independent reserve evaluators. The Wapiti Montney assets were allocated impairment when split into a separate CGU. Accordingly, at December 31, 2013, the Company tested this CGU for reversal of impairment. The calculation resulted in $6.0 million impairment reversal, net of depletion, and has been included as depletion, depreciation, amortization and impairment expense (reversals) in net earnings. An impairment test was also performed on certain of the Company's CGUs due to downward technical reserve revisions. The impairment test did not result in an impairment charge for those CGUs. The recoverable amount was estimated using a fair value less cost to sell calculation based on expected future cash flows generated from proved and probable reserves using a pre-tax discount rate of 10% to 12%, based on the independent external reserves report and management's estimate of additional fair value from asset development not included in the external reserve report. The following benchmark reference prices, as forecasted by the Company's independent external reserves evaluator were used:

2013 Benchmark reference price forecasts

	2014	2015	2016	2017	2018	2019	2020	2021	2022	Thereafter
WTI (US$/Bbl)(1)	97.50	97.50	97.50	97.50	97.50	97.50	98.54	100.51	102.52	+2%/yr
AECO (Cdn$/MMbtu)(1)	4.03	4.26	4.50	4.74	4.97	5.21	5.33	5.44	5.55	+2%/yr

(1) Price forecast effective January 1, 2014.

At December 31, 2012, NuVista performed an impairment test due to indicators of impairment of declining prices and downward reserve revisions for certain of its natural gas CGUs. Total impairment charge for 2012 was $213.1 million which was included as depletion, depreciation, amortization and impairment expenses on the statement of earnings. Included in that amount was an impairment loss of $36.8 million related to the dispositions for 2012. The recoverable amount was estimated using a value in use calculation based on expected future cash flows generated from proved and probable reserves using a pre-tax discount rate of 10% based on NuVista's independent external reserves report.

2012 Benchmark reference price forecasts

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Thereafter
WTI (US$/Bbl)[(1)]	90.00	92.50	95.00	97.50	97.50	97.50	98.54	100.51	102.52	+2%/yr
AECO (Cdn$/MMbtu)[(1)]	3.38	3.83	4.28	4.72	4.95	5.22	5.32	5.43	5.54	+2%/yr

(1) Price forecast effective January 1, 2013.

7. Goodwill

	2013	2012
Balance, beginning of year	**$3,352**	$8,791
Dispositions	**(3,352)**	-
Impairments	**-**	(5,439)
Balance, end of year	**$ -**	$3,352

The goodwill balance was associated with the disposition of certain oil and natural gas properties in the Saskatchewan and Provost areas. As a result of the disposition of these assets in December 2013, the corresponding goodwill was eliminated. The amount was included in the loss on disposition in net earnings during the period.

At December 31, 2012, the Company completed its annual goodwill impairment test at the CGU level and recognized a goodwill impairment charge of $5.4 million. The recoverable amount of the CGU was estimated using a value-in-use calculation based on discounted future cash flows generated from proved and probable oil and natural gas reserves using a pre-tax discount rate of 10%.

8. Long-term debt

As at December 31, 2013, the Company had a $240 million (2012 – $240 million) extendible revolving term credit facility available from a syndicate of Canadian chartered banks. Borrowing under the credit facility may be made by prime loans, bankers' acceptances and/or US libor advances. These advances bear interest at the bank's prime rate and/or at money market rates plus a borrowing margin. The credit facility is secured by a first floating charge debenture, general assignment of book debts and the Company's oil and natural gas properties and equipment. The credit facility has a 364-day revolving period and is subject to an annual review by the lenders, at which time a lender can extend the revolving period or can request conversion to a one year term loan. During the revolving period, a review of the maximum borrowing amount occurs semi-annually on or before October 31 and April 30. The lenders extended the semi-annual review which was completed in November 2013. The maximum borrowing amount was determined to be $220 million with a commitment of $240 million. During the term period, no principal payments would be required until April 29, 2015. As at December 31, 2013, the Company had drawn $nil (December 31, 2012 – $19.9 million).

9. Asset retirement obligations

The Company's asset retirement obligations are based on estimated costs to reclaim and abandon ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. At December 31, 2013, the estimated total undiscounted amount of cash flows required to settle the Company's asset retirement obligations is $179.1 million (2012 – $218.1 million), which is estimated to be incurred over the next 51 years. A year end risk-free rate of 3.2% (2012 – 2.4%) and an inflation rate of 2% (2012 – 2%)

were used to calculate the net present value of the asset retirement obligations. A reconciliation of the asset retirement obligations is provided below:

	2013	2012
Balance, beginning of year	**$147,759**	$174,741
Accretion expense	**3,776**	4,060
Liabilities incurred	**1,288**	967
Liabilities disposed	**(36,926)**	(35,264)
Change in estimates and discount rate	**(813)**	17,062
Liabilities settled	**(8,809)**	(13,807)
Balance, end of year	**$106,275**	$147,759

10. Personnel expenses

Key management personnel include the Board of Directors, executive officers and vice presidents of the Company. Key management personnel compensation is comprised of the following:

	2013	2012
Salaries, wages and short-term benefits	**$4,290**	$4,049
Termination and post-employment benefits	**461**	-
Share-based payments [(1)]	**1,350**	161
Total	**$6,101**	$4,210

(1) Represents the amortization of stock-based compensation expense as recorded in the consolidated financial statements.

11. Deferred income taxes

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to income before deferred income tax expense (benefit) as follows:

	2013	2012
Loss before tax	**$(76,460)**	$(254,733)
Expected tax rate [(1)]	**25.15%**	25.17%
Expected income tax benefit	**(19,230)**	(64,116)
Effect of change in corporate tax rates	**(6)**	(519)
Non-deductible expenses	**2,071**	2,431
Other	**1,849**	2,671
Total income tax benefit	**$(15,316)**	$ (59,533)

(1) The statutory rate consists of the combined statutory rates for the Company and its wholly owned subsidiaries for the years ended December 31, 2013 and 2012. The combined federal and provincial tax rates lowered to 25.15% in 2013 from 25.17% in 2012 primarily due to proportionately more operations being in Alberta in 2013 compared to 2012.

The significant components of the net deferred income tax asset are as follows:

	2013	2012
Deferred tax liabilities		
Oil and natural gas properties	**$ 46,545**	$ 88,044
Other	**-**	1,220
	46,545	89,264
Deferred tax assets		
Asset retirement obligations	**(26,730)**	(37,191)
Share issue costs	**(1,568)**	(797)
Commodity derivative contracts	**(1,716)**	(644)
Non-capital losses	**(18,858)**	(39,923)
Other	**(1,072)**	-
	(49,944)	(78,555)
Net deferred tax (assets) / liabilities	**$ (3,399)**	$ 10,709

A continuity of the net deferred tax liability is detailed in the following tables:

Assets (liabilities)	**Balance January 1, 2012**	**Recognized in profit or loss**	**Other**	**Balance December 31, 2012**
Oil and natural gas properties	$ (156,502)	$ 68,458	$ -	$ (88,044)
Asset retirement obligations	44,268	(7,077)	-	37,191
Share issue costs	748	(404)	453	797
Commodity derivative contracts	4,271	(3,627)	-	644
Non-capital losses	36,860	3,063	-	39,923
Other	-	(880)	(340)	(1,220)
Total	$ (70,355)	$ 59,533	$ 113	$ (10,709)

Assets (liabilities)	**Balance January 1, 2013**	**Recognized in profit or loss**	**Other**	**Balance December 31, 2013**
Oil and natural gas properties	$ (88,044)	$ 41,499	$ -	$ (46,545)
Asset retirement obligations	37,191	(10,461)	-	26,730
Share issue costs	797	(666)	1,437	1,568
Commodity derivative contracts	644	1,072	-	1,716
Non-capital losses	39,923	(21,065)	-	18,858
Other	(1,220)	4,937	(2,645)	1,072
Total	$ (10,709)	$ 15,316	$ (1,208)	$ 3,399

The Company has recognized a net deferred tax asset based on the independently evaluated reserves report as cash flows are expected to be sufficient to realize the deferred tax asset.

12. Share capital

At December 31, 2013, the Company was authorized to issue an unlimited number of voting Common Shares and 1,200,000 non-voting Class B Performance Shares (none of which have been issued).

Common shares

	2013		2012	
	Number	**Amount**	Number	Amount
Balance, beginning of year	**118,618,056**	**$882,831**	99,513,355	$790,340
Issued for cash on offering of common shares	**11,000,000**	**78,100**	17,300,000	84,770
Issued for cash on offering of flow-through common shares[1]	**5,129,000**	**33,545**	1,700,000	8,330
Issued for cash on exercise of stock options	**135,328**	**688**	1,000	4
Exercise of stock options	**-**	**236**	-	1
Conversion of restricted share awards	**109,104**	**364**	103,701	722
Share issue costs, net of deferred tax benefit of $1.4 million (2012 – $0.4 million)	**-**	**(4,275)**	-	(1,336)
Balance, end of year	**134,991,488**	**$991,489**	118,618,056	$882,831

(1) Net of implied premium of $6.1 million on flow-through share price compared to trading price at announcement of equity issuance.

In November 2013, the Company issued 11.0 million common shares at $7.10 per share for gross proceeds of $78.1 million.

In October 2013, the Company issued, pursuant to a public offering, 3.2 million common shares on a flow-through basis in respect of Canadian exploration expenses ("CEE") at a price of $8.00 per share for gross proceeds of $25.6 million. Concurrent with the public offering, the Company also completed a private offering of 0.254 million common shares on a flow-through basis in respect of CEE expenses at a price of $8.00 per share and 1.675 million common shares on a flow-through basis in respect of Canadian development expenses ("CDE") at a price of $7.20 per share for gross proceeds of $14.1 million. The implied premium on the flow-through common shares was determined to be $6.1 million on the date of issue and was recorded as other liabilities. Under the terms of the flow-through share agreements, the Company is committed to spend approximately $12.1 million on qualifying CDE prior to December 31, 2013 and $27.6 million on qualifying CEE prior to December 31, 2014. As at December 31, 2013, the Company had fully spent the qualifying CDE amount and spent $1.1 million on the qualifying CEE amount.

In 2012, the Company issued 4.24 million common shares and 13.06 million common shares at $4.90 per share for combined gross proceeds of $84.8 million. The Company also issued 1.7 million flow-through common shares at $5.89 per share for gross proceeds of $10.0 million. The implied premium on the flow-through common shares was determined to be $1.7 million or $0.99 per share on the date of issue and was recorded as other liabilities. As at December 31, 2012, the Company had spent $2.0 million on eligible expenditures and had an obligation to spend $8.0 million on qualified exploration and development expenditures by December 31, 2013. As at December 31, 2013, the Company had fully spent the 2012 flow-through offering.

13. Earnings per share

The following table summarizes the weighted average common shares used in calculating earnings per share:

(thousands of shares)	**2013**	2012
Weighted average common shares outstanding		
Basic	**120,430**	101,148
Diluted	**120,430**	101,148

For the years ended December 31, 2013 and 2012 all stock options and restricted share awards outstanding were anti-dilutive and were not included in the diluted common share calculation.

14. Share-based compensation

Stock options

The Company has established a stock option plan whereby officers, directors and employees may be granted options to purchase common shares. Options granted prior to December 2008 vest at the rate of 25% per year and expire two years from the vesting date. Options subsequently granted vest at the rate of 1/3 per year and expire 2.5 years after the vesting date. The total stock options outstanding plus the Class B Performance Shares cannot exceed 10% of the outstanding common shares. The summary of stock option transactions is as follows:

	2013		2012	
	Number of options	**Weighted Average exercise price**	Number of options	Weighted Average exercise price
Balance, beginning of year	**6,917,504**	**$ 7.93**	7,288,599	$10.51
Granted	**1,492,085**	**7.36**	2,741,135	4.73
Exercised	**(135,328)**	**5.09**	(1,000)	3.71
Forfeited	**(230,568)**	**6.80**	(2,277,200)	10.39
Expired	**(930,348)**	**12.09**	(834,030)	13.29
Balance, end of year	**7,113,345**	**$ 7.36**	6,917,504	$ 7.93
Weighted average share price on date of exercise	**135,328**	**$ 7.43**	1,000	$ 4.85

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2013:

	Options outstanding			Options exercisable	
Range of exercise price	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$2.90 to $4.99	1,670,900	2.9	$ 4.46	560,552	$ 4.44
$5.00 to $9.99	4,365,179	2.9	7.34	1,874,035	7.72
$10.00 to $14.99	920,229	1.1	11.21	920,062	11.21
$15.00 to $17.63	157,037	0.3	16.03	157,037	16.03
$2.90 to $17.63	7,113,345	2.6	$ 7.36	3,511,686	$ 8.48

The Company uses the fair value based method for the determination of the share-based compensation costs. The fair value of each option granted during the year was estimated on the date of grant using the Black-Scholes option pricing model.

The weighted average fair value and weighted average assumptions used to fair value the options are as follows:

	2013	2012
Risk-free interest rate (%)	**1.5**	1.3
Expected volatility (%)	**40**	40
Expected life (years)	**4.5**	4.3
Forfeiture rate (%)	**10**	10
Fair value at grant date ($ per option)	**2.57**	1.61

The following table summarizes the transactions relating to options, RSUs and RSAs:

	2013				2012			
	Options	**RSU**	**RSA**	**Total**	Option	RSU	RSA	Total
Share-based	**$ 3,975**	**$2,576**	**$ 630**	**$ 7,181**	$ 3,292	$ 376	$ 662	$ 4,330
RSU cash paid	**-**	**2,200**	**-**	**2,200**	-	1,022	-	1,022
Total	**$ 3,975**	**$ 4,776**	**$ 630**	**$ 9,381**	$ 3,292	$1,398	$ 662	$ 5,352
Capitalized share-based compensation	**$ 205**	**$ 177**	**$ 12**	**$ 394**	$ (110)	$ 51	$ 102	$ 43

Restricted share units

The Company has an RSU Incentive Plan for employees and officers. Each RSU entitles participants to receive cash equal to the trading price of the equivalent number of shares of the Company. All RSUs granted vest and become payable within three years after the date the RSUs are issued.

The compensation expense was calculated using the fair value method based on the trading price of the Company's shares at the end of each reporting year. The following table summarizes the change in the number of RSUs:

	2013	2012
Balance, beginning of year	**1,178,401**	478,868
Settled	**(296,689)**	(225,828)
Granted	**353,036**	1,071,180
Forfeited	**(28,421)**	(145,819)
Balance, end of year	**1,206,327**	1,178,401

The following table summarizes the change in compensation liability relating to the RSUs:

	2013	2012
Balance, beginning of year	**$1,488**	$1,242
Change in accrued compensation liabilities	**2,684**	246
Balance, end of year	**$4,172**	$1,488
Compensation liabilities – current (included in accounts payable and accrued liabilities)	**$3,610**	$ 963
Compensation liabilities – non-current	**$ 562**	$ 525

Restricted share awards

In November 2011, the Company established an RSA Incentive Plan for employees and officers which entitle the employee to receive one common share for each RSA granted upon vesting. The RSAs will vest within three years from the date of grant.

The fair value of RSAs is determined based on the weighted average trading price of the five days preceding the grant date. This fair value is recognized as share-based compensation expense over the vesting period with a corresponding increase to contributed surplus. The amount of the compensation expense is reduced by an estimated forfeiture rate determined at the date of the grant and updated each period. Upon vesting of the RSAs and settlement in common shares, the previously recognized value in contributed surplus will be recorded as an increase to share capital.

The following table summarizes the change in the number of RSAs:

	2013	2012
Balance, beginning of year	**291,230**	237,050
Settled	**(109,104)**	(103,701)
Granted	**-**	210,093
Forfeited	**(1,078)**	(52,212)
Balance, end of year	**181,048**	291,230

15. Capital risk management

The Company's objectives when managing capital are: (i) deploy capital to provide an appropriate return on investment to its shareholders; (ii) maintain financial flexibility in order to preserve its ability to meet financial obligations; and (iii) maintain a capital structure that provides financial flexibility to execute on strategic opportunities throughout the business cycle.

The Company's strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include share capital, long-term debt and working capital. In order to maintain or adjust its capital structure, the Company may issue new shares, raise debt, refinance existing debt and adjust capital spending.

A key measure the Company utilizes in evaluating its capital structure is the ratio of net debt to annualized current quarter funds from operations. The ratio is calculated as net debt, defined as outstanding long-term debt plus or minus working capital adjusted for the current portion of commodity derivative assets or liabilities divided by annualized current quarter funds from operations. Annualized current quarter funds from operations is calculated as current quarter cash flow from operations before asset retirement expenditures and changes in non-cash working capital, annualized for the year. The Company's strategy is to maintain a net debt to annualized current quarter funds from operations ratio of less than 1.5:1. At December 31, 2013, the Company had a ratio of net debt to annualized current quarter funds from operations of 0.6:1 (2012 – 0.5:1). The actual ratio may fluctuate on a quarterly basis above or below our target due to a number of factors including timing of acquisitions, dispositions and commodity prices.

	2013	2012
Long-term debt	**$ -**	$19,892
Accounts payable and accrued liabilities	**79,411**	40,813
Add (deduct):		
Cash and cash equivalents	**(2,488)**	-
Accounts receivable and prepaids	**(29,428)**	(30,317)
Net debt [(1)]	**$47,495**	$30,388
Annualized current quarter funds from operations	**$86,132**	$65,112
Net debt to annualized current quarter funds from operations	**0.6**	0.5

(1) Net debt is considered an additional GAAP measure. The Company's calculation of net debt includes long-term debt, add accounts payable and accrued liabilities less cash and cash equivalents less accounts receivable and prepaids before current commodity derivative assets and liabilities.

In order to maintain a flexible capital structure, during the year the Company completed property dispositions for proceeds of $30.3 million, issued 11.0 million in common shares for gross proceeds of $78.1 million and issued 5.1 million in flow-through common shares for gross proceeds of $33.5 million, paid down the entire balance of its long-term debt and focused its capital program to ensure that capital expenditures were aligned to generate the most value.

The Company's share capital is not subject to external restrictions; however the credit facility borrowing commitment is based on the lender's semi-annual review of the Company's oil and natural gas reserves. The Company is subject to various non-financial covenants under its credit facility. Compliance with these covenants is monitored on a regular basis and as at December 31, 2013, the Company was in compliance with all covenants. There were no changes to the Company's approach to capital management during the year.

16. Risk management activities

(a) Financial instruments

The Company's financial instruments recognized on the consolidated statement of financial position consists of cash and cash equivalents, accounts receivable, note receivable, commodity derivative contracts, accounts payable and accrued liabilities, compensation liability and long-term debt. The carrying value of the long-term debt approximates its fair value as it bears interest at market rates. Except for the commodity derivative contracts and compensation liability, which are recorded at fair value, carrying values reflect the current fair value of the Company's financial instruments due to their short-term maturities. The estimated fair values of recognized financial instruments have been determined based on the Company's assessment of available market information and appropriate methodologies, through comparisons to similar instruments, or third party quotes.

The Company classifies fair value measurements according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's cash and cash equivalents are classified as Level 1 and commodity derivative contracts as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

(b) Financial assets and financial liabilities subject to offsetting

The following is a summary of the Company's financial assets and financial liabilities that are subject to offsetting:

			2013			2012
	Gross financial assets (liabilities)	**Gross financial assets (liabilities)**	**Net financial assets (liabilities)**	Gross financial assets (liabilities)	Gross financial assets (liabilities)	Net financial assets (liabilities)
Current liabilities	**$555**	**$(3,071)**	**$(2,516)**	$395	$(1,467)	$(1,072)
Long-term liabilities	**-**	**(4,305)**	**(4,305)**	170	(170)	-
Net position	**$555**	**$(7,376)**	**$(6,821)**	$565	$ 1,637	$(1,072)

(c) Risk management contracts

The following is a summary of financial instruments outstanding as at December 31, 2013:

	Volume	Pricing	Premium	Remaining term
WTI crude oil contracts				
Fixed price swap	1,983 Bbls/d	Cdn $95.45/Bbl		Jan 1, 2014 – Mar 31, 2014
Fixed price swap	2,033 Bbls/d	Cdn $93.67/Bbl		Apr 1, 2014 – Jun 30, 2014
Fixed price swap	2,267 Bbls/d	Cdn $94.70/Bbl		Jul 1, 2014 – Sep 30, 2014
Fixed price swap	2,150 Bbls/d	Cdn $94.48/Bbl		Oct 1, 2014 – Dec 31, 2014
Fixed price swap	1,750 Bbls/d	Cdn $93.97/Bbl		Jan 1, 2015 – Mar 31, 2015
Fixed price swap	1,083 Bbls/d	Cdn $95.56/Bbl		Apr 1, 2015 – Jun 30, 2015
Fixed price swap	183 Bbls/d	Cdn $96.66/Bbl		Jul 1, 2015 – Sep 30, 2015
Put option	900 Bbls/d	Cdn $100.28/Bbl	Cdn $6.35/Bbl	Jan 1, 2014 – Mar 31, 2014
Put option	700 Bbls/d	Cdn $101.89/Bbl	Cdn $6.76/Bbl	Apr 1, 2014 – Jun 30, 2014
Put option	700 Bbls/d	Cdn $101.89/Bbl	Cdn $6.76/Bbl	Jul 1, 2014 – Sep 30, 2014
Put option	500 Bbls/d	Cdn $101.30/Bbl	Cdn $7.02/Bbl	Oct 1, 2014 – Dec 31, 2014
Nymex natural gas contracts				
NYMEX fixed price swap	4,500 MMbtu/d	US $3.93/MMbtu		Jan 1, 2014 – Mar 31, 2014
NYMEX fixed price swap	3,676 MMbtu/d	US $3.89/MMbtu		Apr 1, 2014 – Jun 30, 2014
NYMEX fixed price swap	2,000 MMbtu/d	US $3.80/MMbtu		Jul 1, 2014 – Sep 30, 2014
NYMEX fixed price swap	2,000 MMbtu/d	US $3.80/MMbtu		Oct 1, 2014 – Dec 31, 2014
NYMEX-AECO basis	32,833 MMbtu/d	US $(0.57)/MMbtu		Jan 1, 2014 – Mar 31, 2014
NYMEX-AECO basis	33,333 MMbtu/d	US $(0.57)/MMbtu		Apr 1, 2014 – Jun 30, 2014
NYMEX-AECO basis	35,000 MMbtu/d	US $(0.57)/MMbtu		Jul 1, 2014 – Sep 30, 2014
NYMEX-AECO basis	35,000 MMbtu/d	US $(0.57)/MMbtu		Oct 1, 2014 – Dec 31, 2014

Subsequent to December 31, 2013 the following financial instruments have been entered into:

	Volume	Pricing	Premium US$	Remaining term
WTI crude oil contracts				
Fixed price swap	100 Bbls/d	Cdn $101.10/Bbl		Nov 1, 2014 – Oct 31, 2015
Natural gas contracts				
NYMEX-AECO basis	(5,000) MMbtu/d	US $(0.53)/MMbtu		Jun 1, 2014 – Jun 30, 2014
NYMEX costless collar	5,000 MMbtu/d	US $3.90 -$4.52/MMbtu		Oct 1, 2014 – Dec 31, 2014
NYMEX put option	5,000 MMbtu/d	US $4.55/MMbtu	$0.35/MMbtu	Mar 1, 2014 – Sep 30, 2014
NYMEX put option	5,000 MMbtu/d	US $4.50/MMbtu	$0.32/MMbtu	Mar 1, 2014 – Sep 30, 2014
NYMEX put option	5,000 MMbtu/d	US $4.64/MMbtu	$0.32/MMbtu	Mar 1, 2014 – Sep 30, 2014

The following is a reconciliation of movement in the fair value of unrealized commodity risk management contracts:

	December 31, 2013	December 31, 2012
Fair value of contracts, beginning of year	**$ (1,072)**	$(15,620)
Change in the fair value of contracts in the period	**(12,762)**	10,591
Fair value of contracts realized in the period	**7,013**	3,957
Fair value of contracts, end of year	**$ (6,821)**	$ (1,072)
Commodity derivative liabilities – current	**$ (2,516)**	$ (1,072)
Commodity derivative liabilities – long term	**$ (4,305)**	$ -

(d) Physical purchase and sale contracts

The following is a summary of physical purchase and sale contracts outstanding as at December 31, 2013:

	Volume	Pricing Cdn$	Remaining term
AECO natural gas contracts			
Costless collar	23,000 GJ/d	$3.19/GJ – $3.75/GJ	Jan 1, 2014 – Mar 31, 2014
Costless collar	23,000 GJ/d	$3.19/GJ – $3.75/GJ	Apr 1, 2014 – Jun 30, 2014
Costless collar	13,000 GJ/d	$3.12/GJ – $3.64/GJ	Jul 1, 2014 – Sep 30, 2014
Costless collar	10,000 GJ/d	$3.10/GJ – $3.62/GJ	Oct 1, 2014 – Dec 31, 2014
Costless collar	1,667 GJ/d	$3.00/GJ – $3.53/GJ	Jan 1, 2015 – Mar 31, 2015
Fixed price swap	11,000 GJ/d	$3.48/GJ	Jan 1, 2014 – Mar 31, 2014
Fixed price swap	9,333 GJ/d	$3.46/GJ	Apr 1, 2014 – Jun 30, 2014
Fixed price swap	26,000 GJ/d	$3.54/GJ	Jul 1, 2014 – Sep 30, 2014
Fixed price swap	26,000 GJ/d	$3.56/GJ	Oct 1, 2014 – Dec 31, 2014
Fixed price swap	22,000 GJ/d	$3.59/GJ	Jan 1, 2015 – Mar 31, 2015
Fixed price swap	22,000 GJ/d	$3.59/GJ	Apr 1, 2015 – Jun 30, 2015
Fixed price swap	2,000 GJ/d	$3.62/GJ	Jul 1, 2015 – Sep 30, 2015

Subsequent to December 31, 2013 the following physical purchase and sale contracts have been entered into:

	Volume	Pricing Cdn$	Premium	Remaining term
Natural gas contracts				
Fixed price swap	5,000 GJ/d	$3.88/GJ		Mar 1, 2014 – May 31, 2014
Fixed price swap	2,500 GJ/d	$3.77/GJ		Mar 1, 2014 – May 31, 2014
Fixed price swap	2,500 GJ/d	$4.04/GJ		Nov 1, 2014 – Oct 31, 2015
Fixed price swap	2,500 GJ/d	$3.67/GJ		Nov 1, 2014 – Oct 31, 2015
Fixed price swap	5,000 GJ/d	$3.66/GJ		Nov 1, 2014 – Oct 31, 2015
Fixed price swap	2,500 GJ/d	$3.71/GJ		Nov 1, 2014 – Oct 31, 2015
Put option	10,000 GJ/d	$4.30/GJ	$0.28/GJ	Apr 1, 2014 – Apr 30, 2014

(e) Financial risk management

In the normal course of business, the Company is exposed to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Company's activities.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its accounts receivables. Most of the Company's accounts receivable arises from transactions with joint interest partners and oil and natural gas sales with oil and natural gas marketers. The Company mitigates its credit risk by entering into contracts with established counterparties that have strong credit ratings and reviewing its exposure to individual counterparties on a regular basis.

The carrying amount of note receivable, accounts receivable and cash and cash equivalents represents the maximum credit exposure risk to the Company. As at December 31, 2013, the note receivable balance was $5.0 million; the principle amount is due on December 18, 2016 and collection is assessed based on an annual review of the financial condition of the counterparty. The accounts receivable balance was $22.7 million of which $3.5 million of accounts receivable were past due. The Company considers all amounts greater than 90 days past due. These past due accounts receivable are considered to be collectible. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties. The Company did not have accounts receivable balances owing from counterparties that constituted more than 10% of the total revenue during the year ended December 31, 2013.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity through continuously monitoring cash flows from operating activities, review of the actual capital expenditure program, managing maturity profiles of financial assets and financial liabilities, maintaining a revolving credit facility with sufficient capacity, and managing its commodity price risk management program. These activities ensure that the Company has sufficient funds to meet its financial obligations when due.

The timing of cash flows relating to financial liabilities as at December 31, 2013 is as follows:

	Total	1 year	2 to 3 years	4 to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	**$79,411**	$79,411	$ -	$-	$-
Other liabilities	**5,409**	4,847	562	-	-
Total financial liabilities	**$84,820**	$84,258	$562	$-	$-

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in commodity price risk, currency risk, and interest rate risk. The Company is engaged in oil and gas exploration, development and production activities in Canada and as a result has significant exposure to commodity price risk. The Company has adopted a disciplined commodity price risk management program as part of its overall financial management strategy. The Company considers all of these transactions to be economic hedges but does not designate them as hedges for accounting purposes.

(a) Commodity price risk

Commodity price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in commodity prices. The Company manages the risks associated with changes in commodity prices through the use of various financial derivative and physical delivery sales contracts. The financial derivative contracts are considered financial instruments but the physical delivery sales contracts are excluded from the definition of financial instruments. The Company uses financial instruments and physical delivery sales contracts to manage oil and natural gas commodity price risk.

(b) Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company's financial instruments are only indirectly exposed to currency risk as the underlying commodity prices in Canada for oil and natural gas are impacted by changes in exchange rate between the Canadian and United States dollars.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows will fluctuate because of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank loan which bears a floating rate of interest. The Company had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2013.

(d) Financial instrument sensitivities

The following table summarizes the annualized sensitivities of the Company's earnings to changes in the fair value of financial instruments outstanding at December 31, 2013, resulting in changes from the specified variable, with all other variables held constant. Changes in the fair value generally cannot be extrapolated because the relationship of a change in an assumption to the change in fair value may not be linear.

Impact on earnings	**2013**	2012
Commodity price risk		
Increase in $ WTI – oil $10/Bbl	**$(11,353)**	$(5,346)
Decrease in $ WTI – oil $10/Bbl	**12,454**	5,419
Increase in $ AECO – gas $0.50/GJ	**(678)**	(2,778)
Decrease in $ AECO – gas $0.50/GJ	**678**	2,811
Interest rate risk		
Increase in interest rate – 1%	**$ -**	$(1,017)
Decrease in interest rate – 1%	**$ -**	$ 1,017

17. Financing charges

	2013	2012
Interest expense	**$4,016**	$11,957
Accretion of asset retirement obligations	**3,776**	4,060
Total	**$7,792**	$16,017

18. Significant subsidiaries

The Company has the following significant wholly owned subsidiaries, all of which are incorporated in Canada:

Name of company	**Percentage**	**Country of operation**
NuVista Resources Ltd.	100%	Canada
NuVista Partnership	100%	Canada
NuVista Resources Partnership	100%	Canada
NuVista 2009 Energy Partnership	100%	Canada
1364364 Alberta Ltd.	100%	Canada

19. Commitments

The following is a summary of the Company's commitments as at December 31, 2013:

	Total	2014	2015	2016	2017	2018	Thereafter
Transportation and processing	**$183,586**	$12,980	$17,448	$21,908	$19,960	$17,566	$93,724
Office lease	**14,225**	3,688	3,688	3,702	3,147	-	-
Flow-through common shares	**26,559**	26,559	-	-	-	-	-
Total commitments	**$224,370**	$43,227	$21,136	$25,610	$23,107	$17,566	$93,724

20. Presentation of expenses

The Company's consolidated statement of earnings (loss) and comprehensive income (loss) is prepared primarily by nature of expense, with the exception of employee compensation costs which are included in both operating and general and administrative expenses.

The following table details the amount of total employee compensation costs included in the operating and general and administrative expenses in the consolidated statement of earnings (loss) and comprehensive income (loss):

	2013	2012
Operating	**$ 3,448**	$ 3,581
General and administrative	**25,621**	22,025
Total employee compensation costs	**$29,069**	$25,606